

The Free Trade Area of the Americas: An Analysis For A Select Basket of Fruits and Vegetables

At the Summit of the Americas in 1994, the heads of state from 34 democratically elected countries in the Western Hemisphere agreed to achieve a Free Trade Area of the Americas (FTAA) by 2005. The FTAA agreement would expand the North American Free Trade Agreement (NAFTA) to embrace a market of over 800 million consumers more than doubling the 412 million consumers in the NAFTA countries. The FTAA would also work in parallel with the World Trade Organization (WTO), which has already provided a relatively stable, predictable, and transparent framework for world trade.

With respect to U.S. exports, the outcome of the FTAA will likely have a modest, albeit not insignificant impact on near to mid-term U.S. exports of Chapter 7 and 8 commodities. However, a successful WTO trade round which results in a significant cut in global tariffs would likely produce greater benefits for the U.S. horticultural sector. While both trade initiatives are critically important to the interests of the U.S. horticultural sector, they offer different opportunities and challenges given the nature of the global supply and demand situation.

It is reasonable to assume that horticultural products with relatively high tariff rates have the most likelihood of being affected by the FTAA and WTO negotiations. It should be noted that for U.S. tariff rates, many countries are assessed a lower tariff rate or are exempt from paying tariffs altogether for a wide range of products. Such countries include those covered under the Caribbean Basin Economic Recovery Act, the Andean Trade Preference Act, or the Generalized System of Preferences.

The following is a trade analysis for a select basket of fruits, nuts, and vegetables from Chapters 7 and 8 of the U.S. Harmonized Tariff Schedule (2001) (shown on page 47). These commodities were selected due to their existing U.S. tariff levels, as they are among the products most likely to be affected in upcoming FTAA and future WTO negotiations and because U.S. Normal Trade Relations (NTR) tariff rates for the majority of Chapter 7 and 8 commodities are already very low, if not zero. The analysis compares the trade of these commodities by region among the NAFTA (Canada and Mexico) trading partners, FTAA countries (excluding Canada and Mexico), and the rest of the world (ROW), which includes all nations but NAFTA and FTAA countries. Through this analysis, we can begin to assess the implications of anticipated tariff reductions under the FTAA for our import and export interests. The time periods for the analysis are calendar years (CY) 1994 to CY 2000.

It should be noted that the average U.S. agricultural tariff rate is 12 percent, compared to the global average agricultural tariff rate of 62 percent.

Total Vegetables

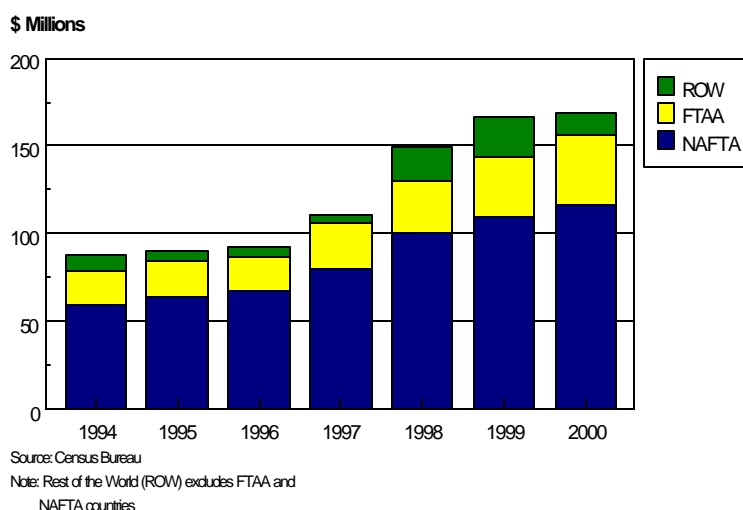
The United States does not rely on vegetable imports from FTAA countries as heavily as it does with NAFTA trading partners. Overall, Mexico and Canada provide the United States with the largest share by value of vegetable imports. In 2000, 60 percent of all vegetable imports originated in Mexico while Canada accounted for 19 percent. Peru accounted for 2 percent, Costa Rica 1.7 percent, and Guatemala 1.4 percent.

Similarly, our NAFTA trading partners are very important for U.S. exports, particularly Canada. In 2000, 55 percent of all U.S. vegetable exports by value were shipped to Canada. This was followed by exports to Japan accounting for 15 percent and Mexico 6.53 percent of the share. The top FTAA market for U.S. vegetable exports is Dominica, accounting for \$12 million and 0.65 percent of all vegetable shipments by value in 2000.

Selected Vegetables

Overall, U.S. imports of the selected basket of vegetables have steadily increased from \$88 million in 1994 to nearly \$169 million in 2000. Most of the increases in value can be attributed to imports from Mexico and Canada. However, imports from both NAFTA and FTAA countries to the U.S. have doubled since 1994. It is expected that the eventual elimination of U.S. tariffs on these items under the FTAA will have a minimal effect on this trend, given the prevalence of U.S. tariff preferences for key suppliers from FTAA countries.

**U.S. Imports of Selected
Vegetables (fresh, dried, & frozen)
CY 1994 - 2000**



The leading U.S. import by value from FTAA countries is asparagus. Total imports of asparagus by the United States have steadily increased by an average of 18 percent per year to reach their highest level of \$34 million in 2000 despite the 21.3 percent ad valorem tariff rate. The majority of U.S. asparagus imports originate in Peru. It should be noted, however, that imports from Peru as well as Colombia are exempt from this tariff under the Andean Trade Preference Act. Imports of Peruvian asparagus have steadily increased by an average of 19 percent per year, accounting for \$30 million in sales, roughly 23,000 tons

to the United States in 2000. Second to Peru is Colombia, shipping \$2.5 million worth, just under 1,000 tons, to the United States in 2000.

Although the United States imports a large amount of asparagus from FTAA countries, very little U.S. asparagus is exported to the region. In fact, the United States shipped less than \$1 million per year of asparagus to FTAA countries between 1994 and 2000. Canada remains the United States primary asparagus market in the Western Hemisphere. In 2000, the United States exported almost 8,000 tons of asparagus worth a total of \$18.7 million to Canada and Mexico. Canada accounted for \$18.2 million of the total. The strongest market for U.S. asparagus outside the Western Hemisphere remains Japan. Last year, Japan imported 7,000 tons of U.S. asparagus worth \$25 million, accounting for 75 percent of all U.S. shipments to the rest of the world (ROW).

Unlike asparagus exports, onion powder remains the strongest U.S. export of the selected commodities to FTAA countries. In 1994, the United States exported 2,000 tons of onion powder worth \$1.8 million to FTAA countries. Exports of onion powder to the region have steadily grown at an average of 11 percent per year to last year's level of \$3.9 million. Although there is no primary market where exports of onion powder are concentrated, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Panama, and Venezuela remain strong markets. It is expected that the eventual elimination of tariffs on these items under the FTAA will not have a major effect on U.S. exports. The industry would most likely stand to gain greater benefits through future WTO negotiations given the potential in key markets outside the western hemisphere.

Total Fruits and Nuts

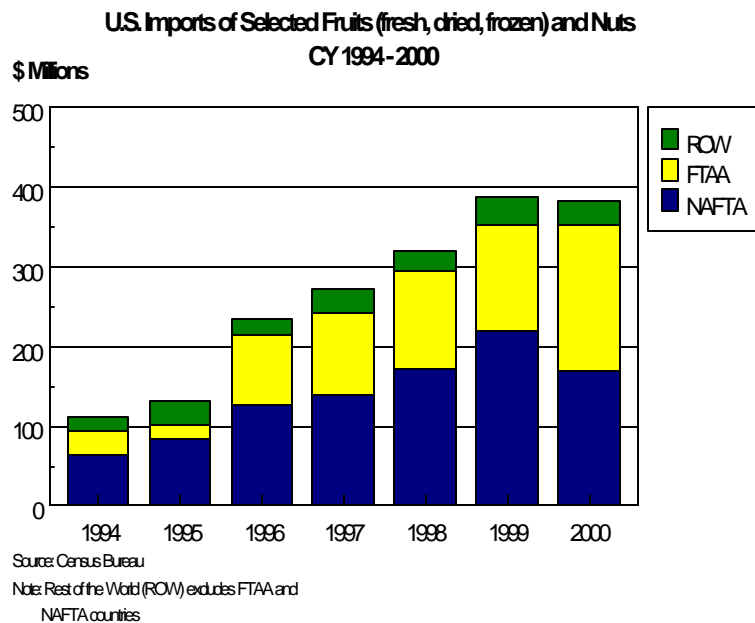
Overall, the United States relies heavily on imports of fruit and nuts from FTAA countries. In fact, nine out of the top ten exporting countries to the United States are FTAA countries. Last year, Mexico supplied 18.5 percent of the total U.S. fruit and nut imports, followed by Chile with 15.9 percent, and Costa Rica with 12.4 percent. The only non-FTAA country in the top ten was India, which accounted for \$242 million and 6.8 percent of all fruit and nut (i.e., cashews) imports by the United States.

U.S. exports show a decidedly different picture. In 2000, the largest share of U.S. fruit and nut exports went to Canada for a total of 31 percent, followed by Japan with a 16-percent market share, but then significantly dropping off with the third ranked market, Mexico, at 6.7 percent. The next largest FTAA market for U.S. exports is Venezuela, ranking twenty-third overall in 2000 at \$22 million and resulting in .56 percent of the total U.S. fruit and nut exports.

Selected Fruits and Nuts

Since 1994, imports of the selected fruits and nuts have increased considerably. U.S. imports of these

items from NAFTA, FTAA, and the rest of the world (ROW) were worth just over \$100 million in 1994. Over the next six years, imports steadily increased to reach \$382 million in 2000. Much of this can be attributed to the NAFTA, which has outpaced imports from both FTAA and the rest of the world (ROW) until last year. In 2000, imports for the first time were led by FTAA countries, accounting for 48 percent all imports by the United States. It is expected that the eventual elimination of U.S. tariffs on these items under the FTAA will have a minimal effect on this trend, given the already existing U.S. tariff preferences for key suppliers from FTAA countries.



The top imports from FTAA countries over this period are cantaloupes and avocados. Cantaloupes, according to the Harmonized Tariff Schedule, imported between September 16th to July 31st, accounted for the largest overall import. Cantaloupe imports by the United States have steadily increased from the 1994 level of \$51 million by an average of 9 percent per year to reach the 2000 level of \$97 million, despite an ad valorem tariff rate of 29.8 percent. Guatemala and Costa Rica accounted for 42 percent (135,702 tons) and 33 percent (128,840 tons) of U.S. imports last year, respectively. However, it should be noted that cantaloupe imports from Guatemala and Costa Rica are exempt from the 29.8 percent tariff under the Caribbean Basin Economic Recovery Act.

The export market for U.S. cantaloupes in FTAA countries is almost nonexistent, with year end values ranging from as low as \$3,442 in 1994 to a high of \$259,000 in 1997. Last year's exports to FTAA countries accounted for \$64,000. The strongest market for U.S. cantaloupe exports is Canada, which accounted for 95 percent of the total \$30 million exported in 2000.

U.S. imports of avocados from FTAA countries have consistently been led by Chile and the Dominican Republic. U.S. avocado imports have steadily increased from the 1994 level of \$24 million by an average of 7 percent per year to reach the 2000 level of \$78 million, at approximately 51,149 tons. Of this \$78 million, imports of Chilean avocados accounted for 90 percent of the total.

U.S. avocado exports overall have steadily decreased from the 1994 level of \$11 million to the 2000 level of \$3.6 million. Japan is the major market followed by Canada. In 2000, the U.S. exported 1,127 tons worth \$1.6 million to Japan and 790 tons worth \$912,000 to Canada. Total exports of avocados to FTAA countries in 2000 accounted for only 12 tons worth \$15,000.

U.S. exports of the selected fruits and nuts show a decidedly different picture. In 1994, the United States exported \$12 million of the selected commodities, but sales have since declined to their lowest level of \$7.8 million in 2000. Exports of almonds have proven to have the strongest value, accounting for 52 percent of the total sales of the selected commodities each year. In 1994, almond exports to FTAA countries totaled \$6.7 million and 1,746 tons, and reached their seven-year high of \$8.6 million, 1,818 tons, in 1997. However, exports of almonds have steadily declined since then to the 2000 level of \$4.7 and 1,567 tons, with Brazil, Argentina, and Venezuela being the top three markets in all years. It is expected that the eventual elimination of tariffs on these items under the FTAA will not have a major effect on U.S. fruit and nut exports. As in the case of vegetables, the industry would most likely stand to gain greater benefits through future WTO negotiations given the potential in key markets outside the western hemisphere

Conclusions

Under existing trade patterns, most U.S. imports of fruits and vegetables originate from Mexico and Canada. NAFTA has clearly contributed to the increasing trade trends. Likewise, a significant number of FTAA countries in this review are exempt from paying U.S. tariffs due to the Caribbean Basin Economic Recovery Act or the Andean Trade Preference Act. This, along with a strong U.S. dollar, the counter-seasonality of products, and strong consumer demand, explain to a large extent why U.S. imports from FTAA countries have steadily increased.

With respect to U.S. exports, the outcome of the FTAA will likely have a modest but not insignificant, impact on near to mid-term U.S. exports of Chapter 7 and 8 commodities. However, a successful WTO trade round which result in a significant cut in global tariffs would likely produce greater benefits for the U.S. horticultural sector. While both trade initiatives are critically important to the interests of the U.S. horticultural sector, they offer differing opportunities and challenges given the nature of the global supply and demand situation.

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U.S. Tariffs on Selected Vegetables
(fresh, dried, & frozen)

| <u>U.S. Imports</u> | <u>Rates of Duty (ad valorem)</u> |
|---------------------------------|--|
| Fresh leeks | 20% |
| Fresh cauliflower & broccoli | 14% |
| Fresh brussel sprouts | 12.5% |
| Fresh carrots (reduced in size) | 14.9% |
| Fresh globe artichokes | 11.3% |
| Fresh asparagus | 21.3% |
| Fresh spinach | 20% |
| Fresh okra | 20% |
| Fresh sweet corn | 21.3% |
| Frozen potatoes | 14% |
| Frozen spinach | 14% |
| Frozen sweet corn | 12.5% |
| Frozen brussel sprouts | 14.9% |
| Frozen okra | 14.9% |
| Onion powder | 29.8% |
| Garlic powder | 29.8% |

U.S. Tariffs on Selected Fruits & Nuts
(fresh, dried, & frozen)

| <u>U.S. Imports</u> | <u>Rates of Duty (ad valorem unless otherwise noted)</u> |
|--|---|
| Almonds (fresh or dried, shelled) | \$0.24/jg |
| Hazelnut (fresh or dried, shelled) | \$0.141/kg |
| Walnut (fresh or dried, shelled) | \$0.265/kg |
| Pecans (fresh or dried, shelled) | \$0.176.kg |
| Dates (fresh or dried, except whole) | 29.8% |
| Avocados (fresh or dried) | \$0.112/kg |
| Watermelon (entered 4/1 to 11/30) | 17% |
| Fresh cantaloupes (entered 9/16 to following 7/31) | 29.8% |
| Other melons (entered 6/1 to following 11/30) | 28% |
| Frozen strawberries | 11.2% |
| Fresh papaya | 11.2% |
| Frozen mangoes | 10.9% |
| Melons (frozen, w/nt sweetened) | 11.2% |
| Mixed nuts & dried fruit | 11.2% |

Note: A country may be excluded from paying some or all of the above referenced duties if it falls under one of the following classifications: Generalized System of Preferences (GSP), North American Free Trade Agreement (NAFTA), Caribbean Basic Economic Recovery Act, United States-Israel Free Trade Area, Andean Trade Preference Act, or the African Growth Opportunity Act (AGOA)